

# **Temporary Assistance for Needy Families Subsidized Employment and the President's FY2015 Budget Proposal: In Brief**

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## Summary

President Obama's FY2015 budget proposal would establish within the Temporary Assistance for Needy Families (TANF) block grant a "Pathways to Jobs" fund. The fund would help states pay for subsidized employment programs targeted toward needy parents, guardians, and youth. Subsidized employment programs use government funds to pay all or part of the wages, benefits, and other costs of employing a participant. Under the President's proposal, the subsidized job could be in either the public or the private sector. Funding for "Pathways to Jobs" would be \$602 million per year beginning in FY2015.

The Administration's "Pathways to Jobs" proposal comes as interest in subsidized employment as a policy for the economically disadvantaged was rekindled by a brief experience of TANF-funded jobs during the recent recession. The American Recovery and Reinvestment Act of 2009 (P.L. 111-5) created a temporary "Emergency Contingency Fund" (ECF) that provided \$5 billion for FY2009 and FY2010. The ECF was created, in part, because of projections that the TANF contingency fund created in the 1996 welfare reform law would be exhausted.

The ECF was different from other TANF grants to states in that it financed only certain TANF expenditures: basic assistance, short-term aid, and subsidized employment. Of the \$5 billion in ECF funding, \$1.3 billion financed increased subsidized employment expenditures. An estimated 280,000 persons benefitted from ECF-funded subsidized jobs. About half of these persons were adult parents; the other half were youth. ECF subsidized employment differed from earlier subsidized jobs initiatives by placing some adult parents in private sector jobs, in addition to public service employment. ECF-funded subsidized employment served a population broader than those on the TANF cash assistance rolls.

Subsidized employment programs can have a number of policy goals: job creation, particularly during a recession; providing income support through work; and improving the long-term employability of participants. There is little recent experience to draw on in assessing the Administration's proposal. However, past research has indicated that subsidized employment programs can meet the goal of providing income support through work, as evaluations have indicated that such programs employ those who would otherwise not have a job. The research is less conclusive on the other policy goals.

The costs of the Administration's proposed TANF-subsidized employment initiative would be offset by ending the current law TANF contingency fund. The TANF contingency fund was created in the 1996 welfare reform law and provided \$2 billion for extra grants to states during recessions. However, the fund often has not behaved as a countercyclical source of extra TANF funds. In assessing the Administration's proposal, policy makers might also consider whether savings from ending the current contingency fund should go to subsidized employment programs or other uses—for example, creating a modified contingency fund to provide a better countercyclical source of extra TANF funds.

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## Introduction

President Obama's FY2015 budget proposes to add to the Temporary Assistance for Needy Families (TANF) block grant a \$602 million per year "Pathways to Jobs" fund. The fund would exclusively finance subsidized employment programs. The proposal outlined in budget documents would make grants to states to subsidize jobs for low-income parents, including noncustodial parents; guardians of children; and youth. Eligible persons would either have to be eligible for TANF cash assistance or have incomes below 200% of the poverty line. Under the proposal, the program would subsidize up to 100% of employment costs (wages, workplace benefits, training, and administrative costs) for the first 90 days of employment. Partial subsidies would be payable thereafter. To offset the cost of the "Pathways to Jobs" fund, the budget proposes to end the current law TANF "contingency fund."<sup>1</sup>

The Administration's "Pathways to Jobs" proposal comes as interest in subsidized employment for the economically disadvantaged has been rekindled by a brief experience of TANF-funded jobs during the recent recession. To help assess the proposal, this report

- provides background on government-funded subsidized employment programs;
- discusses the history of subsidized employment within the TANF block grant; and
- examines some of the policy considerations raised by the proposal.

## Background

Subsidized employment programs use government funds to pay all or part of the wages of those working in jobs. The job may be in either the public or the private sector. The employment subsidies are payments to employers that reduce the cost of hiring and employing a program participant. These jobs pay wages, unlike unpaid activities that are performed in exchange for receiving a cash assistance benefit (often referred to as "workfare"). Subsidized employment programs are also distinct from "on-the-job training," because there is no explicit requirement that employees be given training opportunities.

Historically, subsidized employment programs usually provided public service jobs. They began as measures to provide work and income during the mass unemployment of the Great Depression, as the federal government employed persons in the Works Progress Administration (WPA) and Civilian Conservation Corps (CCC).<sup>2</sup> Beginning in the 1970s, public service jobs were also used to address unemployment during recessions.<sup>3</sup> Under the Comprehensive Employment and Training Act (CETA), public service jobs were used both to address cyclical unemployment as well as provide employment to the economically disadvantaged. These were jobs in state or local governments. CETA's public service employment program ended in 1981. From that time until the 2007-2009 recession, subsidized employment was provided primarily in summer youth employment, and in transitional jobs demonstrations targeting very "hard-to-serve" adults.

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<sup>1</sup> U.S. Department of Health and Human Services, *Fiscal Year 2015 Budget in Brief*, p. 117. Note that the budget discusses this as a "repurpose" of the contingency fund. Since the proposal would end its current rules of operation (at least with respect to uses of monies), this report discusses the proposal as ending the current contingency fund and replacing it with one that subsidizes jobs.

<sup>2</sup> CRS Report R41017, *Job Creation Programs of the Great Depression: The WPA and the CCC*, by Linda Levine.

<sup>3</sup> CRS Report RL31138, *Countercyclical Job Creation Programs of the Post-World War II Era*, by Linda Levine.

Transitional jobs are usually in either state or local governments or in the nonprofit sector. There has been limited funding for transitional jobs. In FY2011, an appropriation of \$40 million was provided for the Department of Labor's (DOL's) enhanced transitional jobs demonstration program.

Though subsidized employment, by paying part or all of the wages to employers, has been a small part of recent policies for the economically disadvantaged, wage subsidies in general have been an important part of public policy for low-income families with children since the 1990s.<sup>4</sup> The largest wage subsidies go directly to low-income workers (rather than employers) through the Earned Income Tax Credit (EITC) and child tax credit. These two refundable tax credits are conditioned on having earnings, and are policies designed to "make work pay" more than public assistance and induce parents who would earn low wages into the labor force.

Less attention has been focused on reducing the costs to employers of hiring people in low-income families. Much of the experience of subsidizing private sector employment is from tax credits to employers for hiring recipients of public assistance or disadvantaged persons (for example, the Work Opportunity Tax Credit (WOTC) and the Welfare-to-Work Tax Credit).

Though there is limited recent experience with subsidized employment programs from which to determine whether they can achieve their policy goals, this might soon change. The Department of Health and Human Services (HHS) is currently fielding an experiment evaluating subsidized jobs programs, though findings from this study are yet to be published.<sup>5</sup> The Department of Labor is currently fielding and evaluating "enhanced" transitional jobs programs.<sup>6</sup> Additionally, the recent "Farm Bill" permitted states to operate pilot work programs in the Supplemental Nutrition Assistance Program (SNAP), which could include subsidized employment.<sup>7</sup>

## The TANF Block Grant and Subsidized Employment

The TANF block grant is best known for helping states finance cash assistance ("welfare") for needy families with children. In addition to cash assistance, TANF finances a wide range of benefits and services aimed at ameliorating the effects of, and addressing the root causes of, child poverty.<sup>8</sup>

Since the enactment of the 1996 welfare reform law, which established TANF, states have had the authority to use TANF funds for subsidizing the employment for certain populations.<sup>9</sup> States can subsidize employment for recipients of cash assistance, or operate programs for broader

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<sup>4</sup> For a conceptual framework for analyzing wage subsidies paid to either employees or employers, see Stacy Dickert-Conlin and Douglas Holtz-Eakin, "Employee-Based versus Employer-Based Subsidies to Low-Wage Workers: A Public Finance Perspective," in *Finding Jobs. Work and Welfare Reform*, ed. David Card and Rebecca M. Blank (New York: Russell Sage Foundation, 2000), pp. 262-295.

<sup>5</sup> See MDRC, The Subsidized and Transitional Employment Demonstration (STED) Project at <http://www.MDRC.org>

<sup>6</sup> See MDRC, The Enhanced Transitional Jobs Demonstration at <http://www.MDRC.org>.

<sup>7</sup> See discussion of these pilots in CRS Report R43400, *Work Requirements, Time Limits, and Work Incentives in TANF, SNAP, and Housing Assistance*, by Gene Falk, Maggie McCarty, and Randy Alison Aussenberg.

<sup>8</sup> For an overview of TANF, see CRS Report R40946, *The Temporary Assistance for Needy Families Block Grant: An Introduction*, by Gene Falk.

<sup>9</sup> Prior welfare law did permit states to use the value of the cash assistance benefit combined with food assistance benefits to subsidize the wages of participants. This provision did not result in many recipients being placed in subsidized jobs.

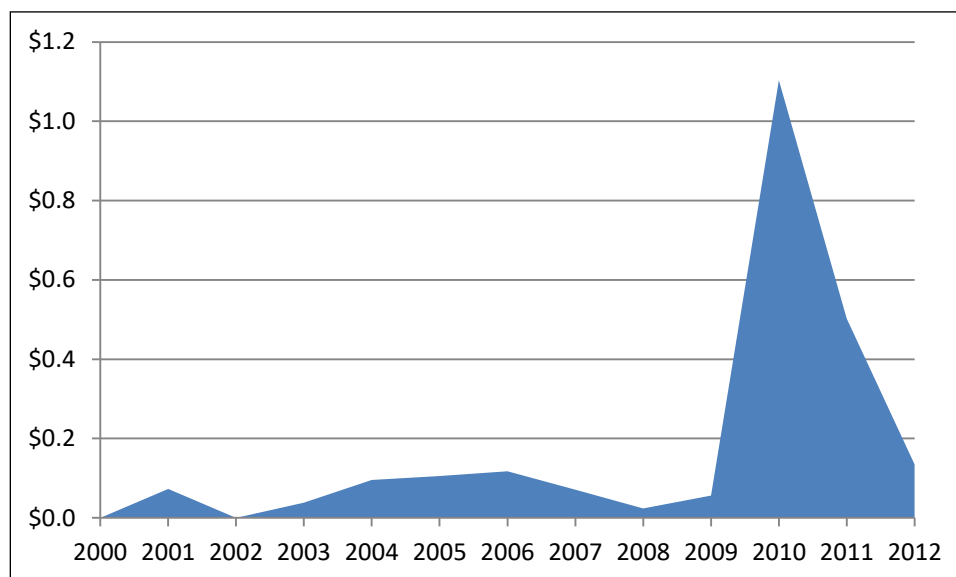
populations as long as it is consistent with TANF goals. The populations states can use TANF to assist include parents, including noncustodial parents, and youths. States have broad latitude in designing their TANF programs, including subsidized employment.

However, states must have procedures in place to address potential “displacement” of regular workers by TANF assistance recipients involved in work activities, including subsidized employment.<sup>10</sup> States are prohibited from employing a TANF assistance recipient in a position when another individual is on layoff from the same or a substantially equivalent job, and they cannot place an individual in a job from which another person has been fired for the purpose of replacement with a TANF assistance recipient in an activity. States must create a procedure to hear complaints of violations of the “nondisplacement” rules.

Though subsidized employment has been a part of TANF from its inception, up until FY2010 it was little used. **Figure 1** shows federal and state TANF expenditures on wage subsidies for FY2000 through FY2012. As shown, expenditures tended to be low before FY2010, but then spiked to over \$1 billion in FY2010. The spike occurred at the level of peak unemployment caused by the 2007-2009 recession. It was also in response to extra TANF funding provided, in part, to finance subsidized employment programs.

**Figure 1. Federal and State TANF Expenditures on Wage Subsidies: FY2000-FY2012**

In Billions of Constant FY2012 dollars



**Source:** Congressional Research Service (CRS), based on data from the U.S. Department of Health and Human Services (HHS).

**Notes:** Constant FY2012 dollars were computed using the Consumer Price Index for all Urban Consumers (CPI-U). In FY2000 and FY2002, total reported expenditures for wage subsidies were negative, as states reported downward adjustments for prior year expenditures.

<sup>10</sup> This is in §407(f) of the Social Security Act.

## The TANF Emergency Contingency Fund and Subsidized Employment

The American Recovery and Reinvestment Act of 2009 (P.L. 111-5) included a provision to create a special temporary “Emergency Contingency Fund” (ECF) within TANF. The ECF was created, in part, because of projections that the “regular” TANF contingency fund created in the 1996 welfare reform law would be exhausted.

Unlike other TANF grants to states, the ECF financed three categories of spending only, rather than any allowable TANF activity. The three categories were (1) basic assistance, (2) non-recurrent short-term aid, and (3) subsidized employment. Of the \$5 billion in extra funds provided to states and tribes under the ECF, \$1.3 billion financed extra spending for subsidized employment. Most of the subsidized employment expenditures financed by the ECF were made in one year, FY2010.

The ECF financed an estimated 280,000 subsidized job slots, making it the largest subsidized employment program of its kind since the 1970s.<sup>11</sup> About half of these slots were for needy parents; the other half were used to expand youth employment programs.

The ECF was created as an emergency measure in response to steep employment declines during the 2007-2009 recession, and did not include provisions to evaluate the efficacy of its spending. However, a retrospective study of ECF-funded subsidized employment found the following:<sup>12</sup>

- States were able to implement subsidized employment programs rapidly in response to ECF funding. Some states expanded existing programs; others created entirely new programs.
- Unlike previous subsidized employment programs, the ECF often financed jobs in the private sector. While some programs provided public sector employment as well, the ECF did not rely solely on public service employment to provide jobs.
- Many of those served by ECF subsidized jobs were not on the TANF cash assistance rolls. Some individuals might have been eligible for TANF assistance and were in subsidized jobs in lieu of receiving cash assistance. However, the ECF also served a broader population than those eligible for TANF cash. To make subsidized employment programs attractive for private sector employers, states tended to select “work-ready” individuals for subsidized jobs.

## Subsidized Employment as a Work Activity for TANF Cash Assistance Recipients

Under TANF, *states* must meet numerical work participation standards, which specify that a percentage of each state’s cash assistance caseload must be engaged in certain activities. There are 12 enumerated activities that states may count toward meeting their standards, including subsidized public sector and subsidized private sector employment.

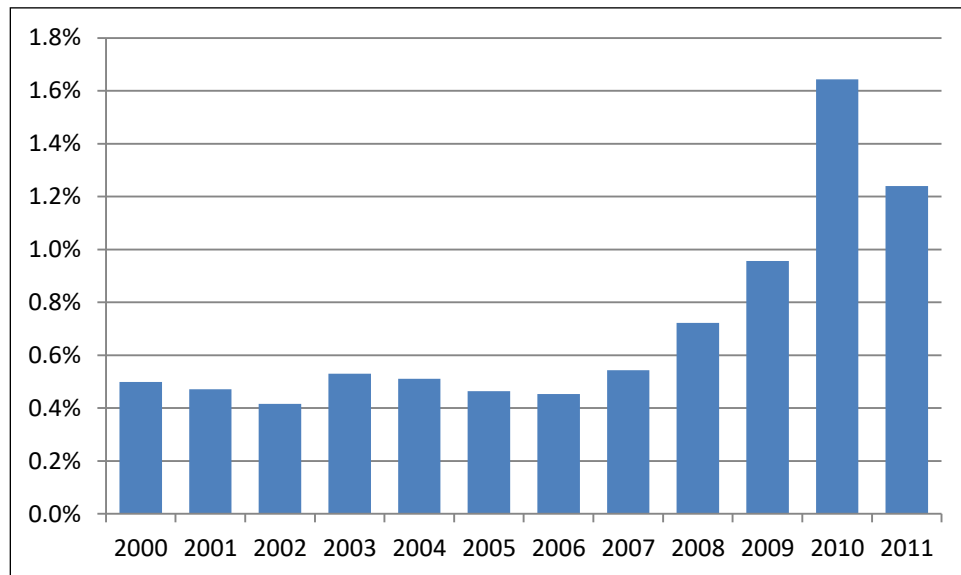
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<sup>11</sup> U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research, and Evaluation (OPRE), *Subsidizing Employment Opportunities for Low-Income Families. A Review of State Employment Programs Created Through the TANF Emergency Fund*, OPRE Report 2011-38, December 2011, prepared by MDRC, [http://www.acf.hhs.gov/sites/default/files/opre/tanf\\_emer\\_fund.pdf](http://www.acf.hhs.gov/sites/default/files/opre/tanf_emer_fund.pdf).

<sup>12</sup> Ibid.

**Figure 2** shows the percentage of TANF cash assistance adults who were engaged in public or private sector subsidized employment for FY2000 through FY2011. As shown, this percentage has been relatively low throughout the period. There was an increase in the share engaged in subsidized employment beginning in FY2008, and this percentage spiked in FY2010. However, even in FY2010, the share of TANF adults engaged in subsidized employment reached only 1.6%—which translates into a monthly average of about 19,000 recipients. This reinforces the finding from the study on ECF-funded subsidized employment that many of these jobs went to people who were not on the cash assistance rolls. ECF-subsidized employment benefitted a broader population of disadvantaged adults and youth.

**Figure 2. Percent of TANF Cash Assistance Adults Engaged in Public- or Private Sector Subsidized Employment: FY2000-FY2011**



**Source:** Congressional Research Service (CRS) tabulations of the FY2000-FY2011 TANF National Data Files.

**Notes:** Cash assistance adults include teen parents who are heads of households or are married.

## Policy Considerations

The Administration's proposal to create a TANF fund to exclusively finance subsidized employment and end the current law contingency fund raises two sets of policy considerations. The first is whether subsidized employment programs can achieve certain policy goals. Subsidized employment programs can be intended to serve a number of policy purposes, including (1) creating jobs, (2) providing income support to those in subsidized jobs, and (3) increasing the long-term employability of participants. There is some research to draw upon in assessing whether the TANF subsidized employment initiative might meet these goals.

The second set of policy considerations asks whether certain policy goals are forgone by offsetting the cost of the subsidized employment program through ending the current law contingency fund. Policy makers, should they choose to end the current TANF contingency fund, might wish to consider alternative uses of the budget savings from such an action.



## Job Creation

A policy goal of subsidized employment, particularly during economic downturns, is creating jobs that would otherwise not exist. The available evidence from previous public service employment programs indicates that some new jobs are created. However, at least some of these public service jobs would have existed as regular public sector jobs in the absence of the program. At the conclusion of the CETA public service employment program in 1981, the Congressional Budget Office (CBO) noted that there were “no firm estimates” of the degree to which public service employment funds substituted for state and local funds in employing individuals.<sup>13</sup>

The research on employer tax credits for hiring disadvantaged workers notes that the rate of participation among employers in these tax credit programs is fairly low.<sup>14</sup> Programs with low interest among employers are unlikely to have job creation potential. However, it has been noted that programs that are less targeted to the most disadvantaged might receive more interest from employers.<sup>15</sup>

## Providing Income Support through Work

A goal of the 1996 welfare reform law was to have assistance recipients work. It attempted to end “long-term dependency on public benefits without being required to return anything to society.”<sup>16</sup> Subsidized jobs provide the opportunity to earn income through work, furthering that goal.

There are three evaluations of subsidized jobs programs to help inform whether this policy goal might be met: The National Supported Work Demonstration of the 1970s, and two more recent evaluations of “transitional jobs.” The three evaluations found that the subsidized employment program raised the earned income of program participants during the period that they were in subsidized jobs.<sup>17</sup> That is, they are effective in employing those who would otherwise not be employed. Thus, the past research indicates that if the goal of a subsidized employment program is to provide income support through work, subsidized employment can be an effective strategy.

## Increasing the Long-Term Employability of Program Participants

The existing evaluation research provides mixed evidence on whether subsidized employment programs increase the long-term employability of program participants. That is, does participation in subsidized employment provide benefits once the subsidized job ends? One of the first evaluated subsidized jobs programs—the National Supported Work Demonstration Project of the 1970s—found beneficial long-term impacts of participation for single mothers receiving assistance. However, more recent evaluations of “transitional jobs” programs found little evidence of long-term impacts.<sup>18</sup>

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<sup>13</sup> U.S. Congressional Budget Office, *Effects of Eliminating Public Service Employment*, Staff Working Paper, June 1981, p. 5.

<sup>14</sup> See discussion in CRS Report RL30089, *The Work Opportunity Tax Credit (WOTC)*, by Christine Scott.

<sup>15</sup> This is discussed in David Neumark, *Policies to Encourage Job Creation: Hiring Credits Vs. Wage Subsidies*, National Bureau of Economic Research, NBER Working Paper 16866, March 2011, <http://www.nber.org/papers/w16866>.

<sup>16</sup> H.Rept. 104-81, p. 19.

<sup>17</sup> See discussion in: Dan Bloom, *Transitional Jobs: Background, Program Models, and Evaluation Evidence*, MDRC, February 2010, [http://www.mdrc.org/sites/default/files/transitional\\_jobs\\_background\\_fr.pdf](http://www.mdrc.org/sites/default/files/transitional_jobs_background_fr.pdf).

<sup>18</sup> Ibid.

## Ending the Current Law Contingency Fund

The President's FY2015 budget proposal would offset the cost of the new "Pathways to Jobs" fund by ending the current law contingency fund. The TANF contingency fund was established in response to the 1996 welfare law's changes in financing programs providing assistance to needy families with children. The 1996 law converted pre-TANF matching grant programs, which automatically responded to changes in expenditures and caseloads, into a set block grant. The basic TANF block grant is a fixed dollar amount and does not change with the circumstances in a state (e.g., its economic conditions, caseloads, or number of children in poverty).

The fixed basic grant under TANF led to concerns that funding might be inadequate during economic downturns. Thus, the 1996 law created a separate \$2 billion fund to provide extra TANF funding during those periods. States would need to meet criteria of economic need in order to access the fund.<sup>19</sup> **Figure 3** shows TANF contingency fund grants and their relationship to the unemployment rate for FY1998 through FY2014. As shown in the figure, the contingency fund often has not behaved as a countercyclical source of extra TANF funds. The fund was little used before FY2008. Grants did not increase together with the unemployment rate during the 2001 recession. States generally did not meet the criteria of economic need required to access this fund during that recession.

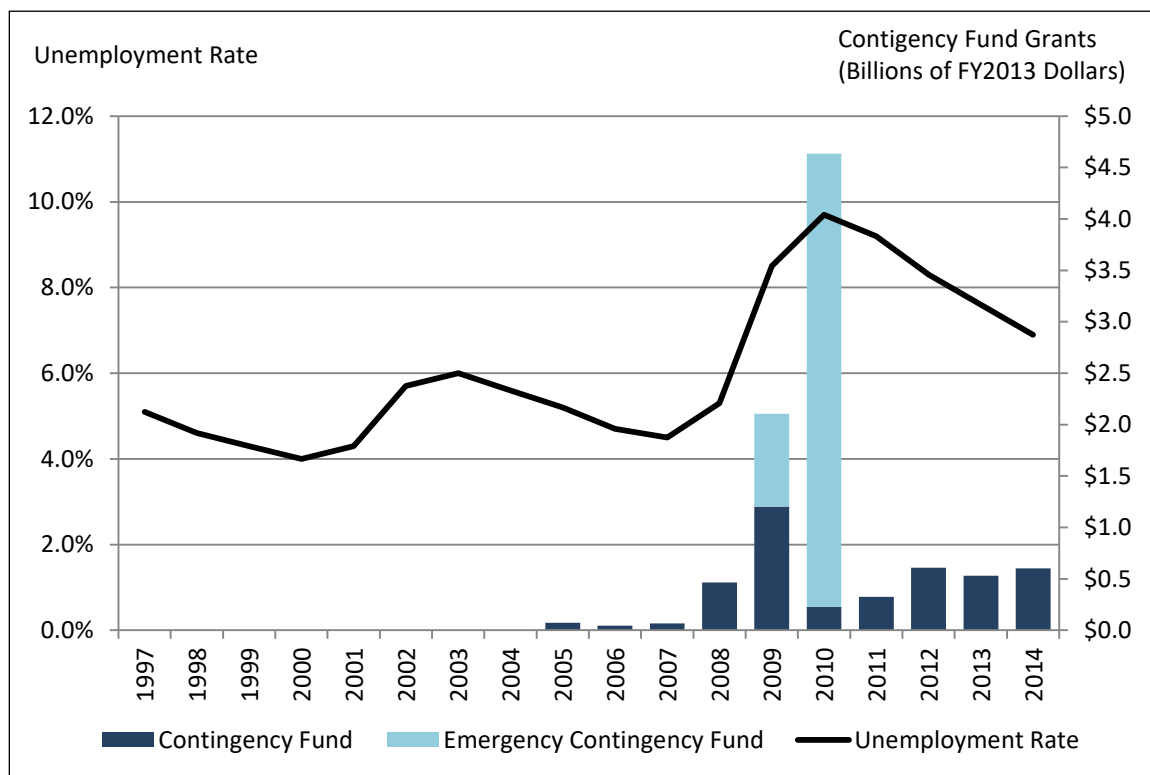
Beginning in 2008, grants did increase with the more severe recession of 2007-2009. With the increase in access to the contingency fund, it was projected that the \$2 billion fund would be exhausted. In fact, the contingency fund was exhausted in early FY2010. **Figure 3** also shows grants from the ECF. It was the ECF—and not the regular contingency fund—that provided the bulk of extra TANF funding in response to the recent severe recession. The ECF expired at the end of FY2010. Congress has provided new, annual appropriations for the regular contingency fund in each year, FY2011 to FY2014.

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<sup>19</sup>The criteria of economic need used for the contingency fund are based on unemployment rates, Supplemental Nutrition Assistance Program (SNAP) caseloads, and state spending above the level spent in pre-TANF programs in FY1994. For detail on the operation of the TANF contingency fund, see CRS Report RL32748, *The Temporary Assistance for Needy Families (TANF) Block Grant: A Primer on TANF Financing and Federal Requirements*, by Gene Falk.

**Figure 3. TANF Contingency Fund Grants and the Unemployment Rate: FY1998-FY2014**

Grants in Billions of Constant FY2013 Dollars



**Source:** Congressional Research Service (CRS), based on data from the U.S. Department of Health and Human Services (HHS); the U.S. Department of Labor, Bureau of Labor Statistics; and the Congressional Budget Office (CBO). FY2014 grants are estimated by HHS, based on awards in the first four months of the fiscal year. The unemployment and inflation rates for FY2014 are based on the CBO February 2014 economic forecast.

**Notes:** Constant FY2013 dollars were computed using the Consumer Price Index for all Urban Consumers (CPI-U). Contingency fund grants include those only for economically needy states; they exclude grants made from the contingency fund to aid evacuees from states affected by Hurricane Katrina.

For future years, the Congressional Budget Office (CBO) baseline assumes that TANF contingency fund grants will remain at their current level, despite continuing declines in unemployment. Based on these projections, the contingency fund would also not behave as intended for the future, as spending would continue even in an improved economy. **Table 1** shows the estimated FY2014 contingency fund awards by state. In FY2014, 20 states are drawing funds from the TANF contingency fund.

**Table 1. Estimated FY2014 TANF Contingency Fund Awards**

State	Total Estimated FY2014 Awards
Alabama	\$9,266,210
Arizona	21,078,509
Arkansas	5,633,583
Colorado	13,510,450

State	Total Estimated FY2014 Awards
Delaware	3,206,499
District of Columbia	9,196,167
Hawaii	9,821,258
Maryland	22,749,468
Massachusetts	45,615,611
Missouri	21,553,267
Nevada	4,360,023
New Mexico	10,980,418
New York	242,583,331
North Carolina	29,932,538
Oregon	16,436,917
South Carolina	9,926,816
Tennessee	19,018,337
Texas	48,285,359
Washington	36,870,650
Wisconsin	29,974,589
Totals	610,000,000

**Source:** Department of Health and Human Services (HHS). Based on actual awards through December 2013 and estimated awards for the remainder of the fiscal year.

Though the existing contingency fund has not functioned as originally intended, the use of these funds for subsidized employment would leave TANF without a potential source of additional spending during a future recession. During the past recession, state government budgets were stressed, with many states cutting back on spending to meet balanced budget requirements. However, for the period when the ECF provided states with extra funds, states generally maintained their TANF benefit amounts. When the ECF expired at the end of FY2010, a number of states reduced their benefits and tightened eligibility for cash assistance.<sup>20</sup>

Congress could opt to redesign the TANF contingency fund so that it would be more responsive to changes in economic conditions than the current contingency fund. That is, it could create a fund that would spend less than is currently projected during good economic times, and would provide a higher level of funding in case the economy falls into recession. Though a fund to provide extra grants during recessions might help TANF respond to future economic downturns, there are a number of difficulties in developing such a fund. Each recession is different—and there is no guarantee that a program that would have been responsive in past recessions will be responsive in future recessions.

<sup>20</sup> Liz Schott and LaDonna Pavetti, *Many States Cutting TANF Benefits Harshly Despite High Unemployment and Unprecedented Need*, Center on Budget and Policy Priorities, October 3, 2011, <http://www.cbpp.org/files/5-19-11tanf.pdf>.

## Conclusion

Subsidized employment programs historically were provided in the workforce programs, with most jobs in the public sector. Such public service jobs used to be associated with both counter-cyclical job creation as well as providing work for the economically disadvantaged. Except for youth employment programs, large-scale public service employment ended in 1981.

The brief experience of TANF ECF-funded subsidized jobs has rekindled interest in providing government funds to subsidize the cost of employing the economically disadvantaged. Unlike many earlier subsidized jobs programs, the ECF did not rely on public service jobs alone, financing some jobs in the private sector. Subsidized jobs are one means of having economically disadvantaged parents work—a goal of the 1996 welfare reform law. However, the evidence is mixed on whether subsidized jobs programs can have positive long-term impacts on the employment and earnings of program participants. Research comparing the efficacy of subsidized jobs to other potential policies—such as education, training, or on-the-job training—has yet to be done.

## Additional Reading

U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research, and Evaluation (OPRE). *Subsidizing Employment Opportunities for Low-Income Families. A Review of State Employment Programs Created Through the TANF Emergency Fund*, OPRE Report 2011-38, December 2011, prepared by MDRC, [http://www.acf.hhs.gov/sites/default/files/opre/tanf\\_emer\\_fund.pdf](http://www.acf.hhs.gov/sites/default/files/opre/tanf_emer_fund.pdf).

Dan Bloom. *Transitional Jobs: Background, Program Models, and Evaluation Evidence*. MDRC. February 2010. [http://www.mdrc.org/sites/default/files/transitional\\_jobs\\_background\\_fr.pdf](http://www.mdrc.org/sites/default/files/transitional_jobs_background_fr.pdf).

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